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HOUSING AND URBAN DEVELOPMENT**  
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**An Overview of the Rental Market in the**

**Fargo-Moorhead, North Dakota-  
Minnesota**

**Metropolitan Statistical Area (MSA)**

**As of  
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**Prepared by**

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## **The Fargo-Moorhead, North Dakota-Minnesota MSA Rental Market**

### **Introduction**

This report has been prepared to assist the U.S. Department of Housing and Urban Development (HUD) in its underwriting operations. It has also been provided to officials of state and local government, developers, lenders and others interested in the outlook for the local rental market. The estimates, opinions and forecasts in this report are solely those of the Economists in the Office of Policy Development and Research in the Rocky Mountain Office and do not represent HUD Departmental or Rocky Mountain Office policy. This report is provided for informational purposes only. It does not purport to make determinations with respect to any particular application for mortgage insurance, subsidy funds, grants or other financing that may be under consideration in this market area.

The market area covered by this analysis consists of the Fargo-Moorhead Metropolitan Statistical Area (MSA), which is defined as Cass County, North Dakota and Clay County, Minnesota. The report includes a discussion of the condition and outlook for the overall rental market and the market for income restricted projects financed under the Low Income Housing Tax Credit (LIHTC) program, including projects which provide income restricted units as a result of obtaining financing through issuance of tax exempt, Private Activity Bonds (PABs). It does not address specialized portions of the rental market such as congregate elderly housing or assisted living but it does include a brief review of the outlook for independent LIHTC units reserved for seniors. The analysis also includes a brief discussion of the home sales market. Unless otherwise noted, the estimates and discussion of market conditions are as of July 2002.

### **Summary and Conclusions**

Employment in the Fargo-Moorhead MSA grew rapidly during the 1990s but growth began to slow by the beginning of the 2000s because of a slowing of the U.S. economy. Recently, employment growth fell to under 2 percent, well below the 3.0 percent annual average growth rate of the 1990s. This trend continued for the 12-month period ending in July 2002 when growth recorded a 0.8 percent gain from the level recorded during the same period a year ago. The unemployment rate stayed surprisingly low; the unemployment rate in July was 2.0 percent, only slightly above the 1.6 percent rate in 2001. Employment will continue to grow but at a slower rate than during the past decade. As the U.S. economy rebounds, there should be some modest increase in the current growth rate. Population increased at a relatively steady 1.3 percent a year since 1990, reaching an estimated 177,500 persons as of July 2002. Fargo city accounts for approximately 50 percent of the MSA's population.

The rental market eased from slightly tighter conditions in 2001 to a more balanced market this year. An increase in construction beginning last year combined with slower employment growth contributed to the overall easing. Although the vacancy rate is up slightly to 7.0 percent, compared to 5.7 percent a year earlier, small rent

increases have been achieved for most projects. The market will become much more competitive over the next year because of a recent surge in construction; permit activity during the first six months of this year was nearly double that of a year ago. Demand for new rental units is estimated at less than 100 units in 2003 and 400 to 500 units in 2004, or below the average absorption of 600 units a year since 1990. The lower demand in the first year is to help the market absorb the approximately 800 units currently under construction. There is opportunity for additional market rate rentals over the next few years but new starts should be timed to come on line during the second half of 2003 or the first half of 2004. Demand is strongest for properties with a unique design (e.g. townhouse, loft, etc.) or located in areas with little new product such as near city centers and the areas near Minnesota State University at Moorhead (MSU) and North Dakota State University (NDSU).

The LIHTC rental market has improved for family projects at 60 percent of median income following an earlier, weaker period. A cutback in LIHTC construction helped the market recover from the high production years of the early- and mid-1990s. The vast majority of the area's 1,260 LIHTC units are for households with incomes less than 60 percent of the median. Rents are typically \$100 to \$200 below the maximum allowed under the tax credit program and well below the area's Section 8 Fair Market Rents (FMRs). Section 8 voucher holders occupy approximately 30 percent of tax credit units in the Fargo-Moorhead area. After adjusting occupancy for Section 8 voucher holders, the combined capture rates for 50 and 60 percent two and three bedroom units are close to limits observed in other market areas. The continued use of Section 8 vouchers to occupy additional LIHTC units will be limited because the number of vouchers is limited. While there has been some improvement, the two and three bedroom market for 60 percent units remains very competitive. Therefore, future development should be encouraged in other income levels and unit sizes. Because there has been little production of 40 percent or under units, there is strong need for all bedroom types below this income level. One and four bedroom units are in short supply for 50 and 60 percent income levels. There is also a need for elderly LIHTC units, where there has been a modest level of production. Under HUD's Section 8 program, there is a substantial unmet need among both elderly and family households eligible for rental assistance.

### **Employment Trend**

The cities of Fargo and Moorhead were originally established during the 1870s as river and rail towns. Agriculture followed because settlers were attracted to the deep, rich soil of the Red River Valley. Wheat was the leading area crop followed by soybeans, barley, corn, sugar beets, sunflowers and potatoes. As the agriculture sector grew so did Fargo-Moorhead's importance as a supporting trade and service center (including the region's medical industry), and transportation hub. By the turn of the century, Concordia College, Minnesota State University at Moorhead and North Dakota State University had opened. These schools have established themselves as an integral part of the local economy and housing market. During the 2001/2002 academic-year these schools accounted for over 21,100 students and 3,100 faculty and

staff workers. Students, faculty and staff have a significant impact on the area's housing market.

The economy is now more diversified with the addition of several high-tech businesses to its economy. Private sector employers with over 700 employees are MeritCare Health System, American Crystal Sugar Company, Blue Cross Blue Shield of North Dakota, Heartland Health System, Microsoft Great Plains Business Solutions, US Bank Service Center and Case Corporation. These latter three companies are the three largest companies to locate in the area during the 1990s. Microsoft provides financial software products and services and is the largest of several software companies located in the area. U.S. Bank provides support for the banking chain's credit card customers nationwide. The service center is also the largest of a half-dozen local operations providing business services such as telemarketing, data processing, financial and reservations centers. This sector has added thousands of new jobs to the area over the past decade. The Case New Holland plant manufactures tractors, which has added to the areas agricultural related manufacturing base. The recent trend in civilian unemployment rate and wage and salary employment for the MSA is presented in the following table:

*Table 1*

Unemployment Rate and Wage and Salary Employment  
Fargo-Moorhead, North Dakota-Minnesota MSA  
1990 - 2002

| <u>Year</u>  | <u>Unemployment<br/>rate</u> | <u>Wage and salary<br/>employment</u> |               |
|--------------|------------------------------|---------------------------------------|---------------|
|              |                              | <u>Number</u>                         | <u>Change</u> |
| 1990         | 3.8%                         | 77,600                                | na            |
| 1991         | 3.6%                         | 79,800                                | 2.8%          |
| 1992         | 3.6%                         | 82,300                                | 3.1%          |
| 1993         | 3.1%                         | 84,250                                | 2.4%          |
| 1994         | 2.7%                         | 86,500                                | 2.7%          |
| 1995         | 2.5%                         | 89,200                                | 3.1%          |
| 1996         | 2.5%                         | 92,000                                | 3.1%          |
| 1997         | 1.8%                         | 95,850                                | 4.2%          |
| 1998         | 1.7%                         | 99,200                                | 3.5%          |
| 1999         | 2.0%                         | 100,800                               | 1.6%          |
| 2000         | 2.0%                         | 102,850                               | 2.0%          |
| 2001         | 1.9%                         | 103,900                               | 1.0%          |
| <hr/>        |                              |                                       |               |
| July 2001(a) | 1.6%                         | 103,400                               | na            |
| July 2002(a) | 2.0%                         | 104,200                               | 0.8%          |

(a) 12-month period ending July.

Source: Job Service North Dakota

Annual employment growth remained in the 1 to 2 percent range during the 1980s, primarily fueled by expansion of its trade and service area and the in-migration of the surrounding area's rural population. Many joined the Fargo-Moorhead labor force, enrolled at one of the area colleges and/or chose the area as a desirable place to retire. Most of the employment growth during this period was in the trade and services sectors. Beginning in the early 1990s, fueled by an expanding industrial and equipment manufacturing base and the attraction of high-tech manufacturing and services, employment growth increased to an annual average of 3 percent. The availability of a skilled work force, low costs and proximity to the area's post-secondary schools promoted recent gains in advanced technology employment.

The economy slowed over the past few years from the rapid growth of the 1990s because of a general weakness in the U.S. economy, some mergers in the health services sector and uncertainty in the agricultural sector. There have been no major layoffs but general economic uncertainty has made local employers more cautious about hiring new workers and made farmers reluctant to purchase new equipment. This has been the primary factor in the lower employment growth rate (0.8 percent) for the twelve months through July of this year. Nevertheless, average employment growth for the 12-month period has performed about the same as the state, but better than the U.S. average. Most noteworthy is that the area's manufacturing and high-technology service base has been relatively stable over the past year. The unemployment rate increased only slightly in July 2002 to 2.0 percent from the 1.6 percent recorded a year earlier. Fargo-Moorhead's average annual unemployment rate has been below 3 percent since 1996. The average annual wage in the Fargo-Moorhead MSA in 2000 was \$27,003, which is above the state average of \$24,678, but below the U.S. average of \$36,986.

Overall, employment growth should begin to increase and level off in the 1.5 to 2 percent range over the next few years, up from this year but below the stronger growth of the 1990s. Planned expansions by existing manufacturing firms, a stabilized local high technology sector and the city's continued growth in trade and services should help the economy bounce back from its current slowdown. A return to the high growth rates of the 1990s over the short term is not expected because of slowing in-migration and general economic uncertainty.

Clay County and the city of Moorhead have not shared equally in the overall growth the area experienced during the past decade. Economic development and living on the Minnesota side of the border has been more expensive. This disparity is in part perception and in some part due to Minnesota State mandated programs and taxation policies. For example, the development of apartments was taxed at a much higher rate in Minnesota than in North Dakota. Businesses and households have generally chosen to locate in Fargo to take advantage of the lower costs and ease in obtaining the local development approval. Recently, there have been efforts by Moorhead and Minnesota to address these cost disparities, and during the past few years, the economy and housing market in Moorhead have improved. The state lowered taxes on apartments to be more in line with surrounding states. Moorhead has several infrastructure projects in the pipeline including

rerouting the Main street bridge to open up development along the river, a \$44 million hotel and convention center already under construction and a \$60 million school project that includes upgrading and/or replacing existing buildings. The city has also plotted new housing development areas. Improvements should spur growth on the Moorhead side of the river for sometime to come.

### **North Dakota State University, Minnesota State University and Concordia College**

The combined employment level of 3,100 faculty and staff at the area's three post-secondary schools and its student body of over 21,000 students represent a significant influence on the local economy and rental market. Students represent about 12 percent of the area's total population. The trend in student enrollment is presented in the following table.

*Table 2*

University/College Enrollment  
Head County - Fall Semester  
Fargo-Moorhead, North Dakota-Minnesota MSA  
1992-2002

| <u>Year</u> | <u>Concordia<br/>College</u> | <u>Minnesota<br/>State<br/>University</u> | <u>North Dakota<br/>State<br/>University</u> | <u>Total</u> | <u>Percent<br/>Change</u> |
|-------------|------------------------------|---|--|--------------|---------------------------|
| 1992        | 2,942                        | 8,290                                     | 9,269  | 20,501       | na                        |
| 1993        | 2,999                        | 7,525                                     | 9,507  | 20,031       | -2.3%                     |
| 1994        | 2,941                        | 6,990                                     | 9,665  | 19,596       | -2.2%                     |
| 1995        | 2,941                        | 6,474                                     | 9,676  | 19,091       | -2.6%                     |
| 1996        | 2,928                        | 6,384                                     | 9,598  | 18,910       | -0.9%                     |
| 1997        | 2,931                        | 6,474                                     | 9,408  | 18,813       | -0.5%                     |
| 1998        | 2,979                        | 6,657                                     | 9,536  | 19,172       | 1.9%                      |
| 1999        | 2,918                        | 7,047                                     | 9,638  | 19,603       | 2.2%                      |
| 2000        | 2,826                        | 7,418                                     | 9,894  | 20,138       | 2.7%                      |
| 2001        | 2,766                        | 7,444                                     | 10,538                                       | 20,748       | 3.0%                      |
| 2002 (a)    | 2,800                        | 7,500                                     | 10,800                                       | 21,100       | 1.7%                      |

(a) estimated.

Source: Office of the Registrar: Concordia College (CC), Minnesota State University and North Dakota State University.

Except for the capped enrollment at Concordia College, enrollment has steadily increased at NDSU and MSU over the past five years. NDSU is expected to reach 12,000 full and part time students by 2005. By lowering its out-of-state tuition charge to

the equivalent of in-state tuition, MSU is expected to attract more out-of-state students. Both universities project continued growth over the next few years.

The number of dormitory beds at the three schools has declined over the past decade because of a change in student preference for more private rooms and demolition of obsolete structures. The total present effective capacity of 4,710 beds is down from the nearly 6,500 beds available ten years ago. Many shared dormitory rooms were converted from two to four beds per room to one or two beds per room. This occurred when enrollment was flat or declining at MSU and NDSU, and competition from off-campus housing options made these changes permanent. Also, MSU demolished a 405-bed dormitory in 1999 due to an obsolete building design. Driven by increased enrollment, dormitories have been full or at overcapacity in each fall semester over past several years. To accommodate student's preference to live on campus, NDSU expanded dormitory capacity by leasing motels rooms and off-campus apartments. Dormitory occupancy at all the three post-secondary schools averages well above 95 percent for last few academic years. The supply of on-campus housing at each of the three major colleges is shown below:

*Table 3*

College/University Student Housing  
Fargo-Moorhead, North Dakota-Minnesota MSA  
Fall 2001/2002

| <u>University/College</u>      | <u>Dormitory Beds (a)</u> | <u>Apartment Units</u> |
|--------------------------------|---------------------------|------------------------|
| Concordia College              | 1,510                     | 160                    |
| Minnesota State University (b) | 1,530                     | 36                     |
| North Dakota State University  | <u>1,670</u>              | <u>365</u>             |
| Total                          | 4,710                     | 661                    |

(a) Actual capacity.

(b) Includes 36-unit apartment project opening in Fall 2002 semester.

Source: CC, MSU and NDSU housing offices.

On-campus apartment units are used primarily for family housing, but also for single and graduate students. Occupancy in these projects stays high throughout the year, including the summer months. This fall, NDSU is converting a 62-unit single student apartment project to 200 beds to accommodate the expected increase in freshman enrollment. NDSU is also about to begin construction on a 42-unit, 168-bed apartment style dormitory that will come on line in fall 2003 followed by a second 42-unit phase to come on line in 2005. Each unit is designed with four private bedrooms. MSU will be opening a 36-unit, 142-bed apartment style dormitory this fall. CC added apartment style student housing in 1988 and 1997. Approximately 30 percent of the students are housed

in university/college sponsored housing, while the remaining 70 percent live in off-campus housing. Of those that initially live on-campus, many return to the dormitory or apartment for subsequent years because of the convenience and, in most cases, cost. Housing offices report that there appears to be ample supply of off-campus rental housing market-wide, but apartments within easy walk or bike to campus are difficult to find. CC and MSU (both located in Moorhead) noted that more students are reporting a Fargo address than in the past. Judging by the strong occupancy and projected enrollment growth, there is a need for additional on-campus or other college/university type housing.

### **Population Trend**

Population growth in the Fargo-Moorhead MSA paralleled the steady employment growth of the 1990s. The population and migration trend is presented in the following table:

*Table 4*

Population and Components of Change  
Fargo-Moorhead, North Dakota-Minnesota MSA  
1990 - 2002

| <u>Date</u> | <u>Population</u> | <u>Net natural<br/>increase (a)</u> | <u>Migration</u> | <u>Population change</u> |                |
|-------------|-------------------|-------------------------------------|------------------|--------------------------|----------------|
|             |                   |                                     |                  | <u>Number</u>            | <u>Percent</u> |
| July 1990   | 153,800           | na                                  | na               | na                       | na             |
| July 1991   | 155,600           | 1,200                               | 600              | 1,800                    | 1.2%           |
| July 1992   | 158,300           | 1,200                               | 1,500            | 2,700                    | 1.7%           |
| July 1993   | 160,700           | 1,100                               | 1,200            | 2,400                    | 1.5%           |
| July 1994   | 163,200           | 1,100                               | 1,400            | 2,500                    | 1.6%           |
| July 1995   | 165,500           | 1,200                               | 1,200            | 2,300                    | 1.4%           |
| July 1996   | 167,100           | 1,200                               | 400              | 1,600                    | 1.0%           |
| July 1997   | 169,300           | 1,100                               | 1,000            | 2,200                    | 1.3%           |
| July 1998   | 171,500           | 1,100                               | 1,100            | 2,200                    | 1.3%           |
| July 1999   | 173,600           | 1,100                               | 1,000            | 2,100                    | 1.2%           |
| July 2000   | 174,700           | 1,200                               | 0                | 1,100                    | 0.6%           |
| July 2001   | 175,900           | 1,200                               | 0                | 1,200                    | 0.7%           |
| July 2002   | 177,500           | 1,200                               | 400              | 1,600                    | 0.9%           |

(a) Excess of resident births over deaths in prior year.

Source: U.S. Census Bureau; North Dakota Department of Health; HUD Economist.



In-migration accounted for over 60 percent of the population gain during the 1990s, but has been near zero during the past few years. As the economy improves, migration should begin to pick up over the next few years, although in-migration is unlikely return to the levels of the past decade. The current estimated population for the MSA is about 177,500 persons as of July 1, 2002, a 0.9 percent increase from July 1 of last year. This is below the decade annual average of 1.3 percent. As mentioned above, this population movement from the rural areas near Fargo-Moorhead should pick-up in 2003 and 2004 as the economy improves. In addition, a flow of foreign-born immigrants and refugees into the metro area, centered primarily in Fargo, is likely to continue and contribute to population growth. According to the 2000 census, nearly 3,600 foreign-born migrants located in the area in the 1990 to 2000 decade. This trend is expected to continue. Expected employment growth of 1.5 to 2 percent per year over the next few years should result in population increasing to 181,500 persons by 2004.

### **Housing Inventory**

The housing inventory in the MSA expanded by over 12,600 units in the 1990s. These additions to the housing stock, coupled with a small increase in vacancies, resulted in a net gain of over 12,200 households between the two censuses. Contrary to national and state trends toward a higher rate of homeownership, the rate for Fargo-Moorhead remained constant at 58.9 percent. The general preference for homeownership by the typical household has been offset by an increase in the population of households most likely to rent, including post-secondary students, refugees/migrants and workers employed in the lower paid trade and service jobs locating to the area. From 1990 to 2000, North Dakota's homeownership rate increased by 1 percentage point to 65.6 percent, while Minnesota's rate increased by nearly 3 points to 74.6 percent. The Fargo-Moorhead homeownership rate of 58.9 percent is the lowest of the state's three metro areas and lower than the rate for the U.S. (66.2 percent). The Cass County portion of the Fargo-Moorhead MSA accounted for nearly 85 percent of North Dakota's increase in total housing units during the past decade. This indicates the continued dominance of the MSA as the primary economic and population center of the state. The following table compares the inventory, tenure and vacancy data from the 1990 and 2000 Censuses, and HUD estimates for 2002.

Table 5

Housing Inventory, Tenure and Vacancy  
Fargo-Moorhead, North Dakota-Minnesota MSA  
1990, 2000 and 2002

|                         | <u>April 1990</u> | <u>April 2000</u> | <u>July 2002</u> |
|-------------------------|-------------------|-------------------|------------------|
| Total Housing Inventory | <u>60,953</u>     | <u>73,536</u>     | <u>76,100</u>    |
| Occupied Housing Units  | <u>57,771</u>     | <u>69,985</u>     | <u>72,400</u>    |
| Owner Occupied          | 34,021            | 41,250            | 42,800           |
| Percent                 | 58.9%             | 58.9%             | 59.1%            |
| Renter Occupied         | 23,750            | 28,735            | 29,600           |
| Percent                 | 41.1%             | 41.1%             | 40.9%            |
| Vacant Housing Units    | <u>3,182</u>      | <u>3,551</u>      | <u>3,760</u>     |
| For sale                | 583               | 640               | 650              |
| Owner Vacancy Rate (a)  | 1.7%              | 1.5%              | 1.5%             |
| For Rent                | 1,408             | 1,621             | 1,790            |
| Renter Vacancy Rate (a) | 5.6%              | 5.3%              | 5.7%             |
| Other Vacant            | 1,191             | 1,290             | 1,320            |

Note: Subtotals may not add to totals because of rounding.

(a) These vacancy rate estimates are designed to be compatible with the vacancy rates in the 1990 and 2000 Census and may be different than the rate derived from local surveys of apartments or homes.

Source: U.S. Bureau of the Census; estimates by HUD economist.

Since 2000, approximately 2,400 new households have been added to the area, while the housing inventory increased by nearly 2,600 units. This is below the rate of growth the area experienced during the past decade. Based on the number of owner units built since 2000 relative to new rental units (excluding units under construction), the rate of homeownership has begun to slowly increase, reversing the trend of the past decade. This trend should continue over the next few years because of a general preference for homeownership.

### **Residential Building Trend**

The strong economy has stimulated residential building. From 1990 to 2000, the number of new single-family units (including twin-homes) permitted was the highest level of any past decade. Despite the slower economy, the pace did not slow in 2000

and 2001; production continued at above the average annual rate of the 1990s. This trend continued in 2002; from January through June, the number of new units permitted increased by 8 percent from last year's level. The trend in new construction permits is presented in the following table.

*Table 6*

Housing Units Authorized by Building Permits  
Fargo-Moorhead, North Dakota-Minnesota MSA  
1990 - 2002

| <u>Year</u>  | <u>Single Family (a)</u> | <u>Multifamily (b)</u> | <u>Total</u> |
|--------------|--------------------------|------------------------|--------------|
| 1990         | 391                      | 686                    | 1,083        |
| 1991         | 393                      | 848                    | 1,241        |
| 1992         | 585                      | 821                    | 1,406        |
| 1993         | 740                      | 940                    | 1,680        |
| 1994         | 543                      | 977                    | 1,520        |
| 1995         | 626                      | 906                    | 1,532        |
| 1996         | 599                      | 518                    | 1,117        |
| 1997         | 438                      | 751                    | 1,189        |
| 1998         | 826                      | 603                    | 1,429        |
| 1999         | 669                      | 591                    | 1,260        |
| 2000         | 582                      | 548                    | 1,130        |
| 2001         | 709                      | 713                    | 1,422        |
| <hr/>        |                          |                        |              |
| Jan-Jun 2001 | 329                      | 351                    | 680          |
| Jan-Jun 2002 | 355                      | 693                    | 1,048        |

- (a) Single-family permits include all one-unit or twin-home structures.
- (b) Multifamily permits include all structures with 2 or more units (including townhouses and condominiums, but excluding twin-homes).

Source: Fargo-Moorhead Homebuilders Association

Fargo's share of the MSA's single-family permit activity fell steadily from 62 percent in 1990 to 46 percent in 2001. Conversely, West Fargo's share of single-family permit activity increased from 15 percent in 1990 to 34 percent in 2001. Fargo's reduced portion of single-family production stems from its lack of nearby, developable land. Bordered by Moorhead to the east, the airport to the north and West Fargo to the west, growth during the past few decades has centered to the south. To encourage development to the southwest, the city built roads and sewers and set up a special taxation district to develop services to the area. This is where Fargo's growth is now centered. Moorhead's share of permit activity has remained at the same 17 percent

from 1990 to 2002. Its share should increase with new infrastructure improvements and zoning changes areas in the south, downtown and around new schools.

New single-family homes are priced approximately \$15,000 to \$20,000 above a comparable existing home. The largest share of new homes is priced for the move-up range of from \$150,000 to \$200,000. Builders also target the first time homebuyer under the North Dakota Housing Finance Agency (NDHFA) new construction price limit of under \$130,000, including both single-family and twin homes. New twin homes are typically priced between \$90,000 and \$120,000. The next most active price range is the move-up range of \$200,000 and \$300,000, while a smaller portion of new homes are priced over \$300,000. There have been a limited number of townhouses and condominiums produced since the 1970s and 1980s. However, this is starting to change with some planned development of small townhouse projects. These are priced below the first time buyer price limit of \$130,000 or aimed at the “empty nester” market of around \$200,000. New homes make up about 30 percent of the sales market in Fargo-Moorhead.

Multifamily building also set a record for the decade, but much of the production was during the first half. Approximately 56 percent of the decade total of 7,600 units was built between 1990 and 1994. During the cutback period of the late-1990s, construction shifted from a large number of tax credit to market rate units. As the rental market improved, another construction spike took place in 2001 when approximately 710 multifamily units (650 apartments) were started, of which nearly all were general occupancy market-rate product. The market has absorbed approximately 550 of these apartment units. Of the remaining 160 units, 100 apartment units will be finished this summer or early fall, while the balance of 60 units is a combination of condominium, townhouse and duplex, or special purpose product. Through June of this year, permits have been issued for about 690 multifamily units, including about 650 apartment units. These will come on line by the end of this year or into spring of next year. In total, there are 800 units currently under construction. Also expected to start construction this year are another 140 units in four apartment projects, including one LIHTC and three market-rate projects.

As mentioned above, the pipeline of projects not yet under construction but in the late planning stages includes 140 units in four projects. These include one elderly, one LIHTC family and one market rate project in Fargo; the fourth is a market rate project in Moorhead. The LIHTC family project is aimed at households earning 30 and 60 percent of area median income. This project is of two, three and four bedroom townhouse design. There are few projects in early planning stages (240 units) but local builders often have zoning and financing in place and can easily start construction without a long processing time. As a result, this modest pipeline could increase quickly.

LIHTC projects completed over the past few years include the Moorhead Townhouses and the Prairie View Apartments, both 30-unit townhouse style apartments located in Moorhead. Also, two small walk-up (five to nine units) tax credit projects recently opened in downtown Fargo. Units in these projects are of studio and one-

bedroom design targeted to the 40, 50 and 60 percent single-person market. The largest recently built market rate apartment complexes range from the 28 units at the Belsly II Townhouses to the most recent phase of the Pace Lodge Apartments with 108 units.

### **Present Multifamily Construction Activity**

There are 14 projects currently under construction; ten are in Fargo (nine market rate and one tax credit), two in Moorhead (one market rate and one tax credit) and one in West Fargo (market rate). There are about 800 units (excluding for-sale townhouses and condominiums) in these projects that remain under construction. Except as noted, the projects described below include heat and garage in the rent, and each unit comes with a washer and dryer.

#### **Amber Crossing Apartments, 117 units:**

Located in southwest Fargo, this project will feature an elevator, fitness and business center. The project started construction in August 2002 and should be completed by February 2003.

#### **Amber Valley Apartments, 54 units:**

This project started construction in April 2002 with the first building coming on line in September; the two building project should be completed by October. Located in southwest Fargo, it is just off Interstate 29.

#### **Belsly II Townhouses, 28 units:**

Located in south Moorhead, this 28-unit townhouse project is 100 percent market rate. The first units should come on line in October 2002 with build out expected to be in Spring 2003.

#### **Buchholz Apartments, 96 units:**

This market rate project, located next to the hotel and conference center, is under construction in south Moorhead. The first units should come on line by the end of the year.

#### **Burlington Townhouses I, 60 units:**

This is the first phase of a 164-unit townhouse project in West Fargo. The units should be coming on line beginning in September 2002, while additional phases will be spread over a two-year period.

Dakota Park IV, 95 units:

This is a fourth phase addition to an existing 396-unit market rate project in southwest Fargo. This project was first started in 1993. Amenities include indoor pool, Jacuzzi, exercise room and under ground parking. Construction of this phase should be completed by June 2003.

Galleria I on 42<sup>nd</sup> Street, 62 units:

Located off of 42<sup>nd</sup> Street, this market rate project started in May 2002. Amenities include indoor pool, Jacuzzi, exercise room and under ground parking. Construction of this phase should be completed by October 2002.

Maple Court Townhomes, 34 units

Located in south Moorhead, this 34-unit townhouse project is restricted to households earning less than 60 percent of median income. The first units should come on line by December 2002 and the project should be completed by June 2003.

Mistwood Apartments I, 84 units:

This project is located in the southwest part of the city off of 40<sup>th</sup> Avenue near Interstate 29. It is of two and three bedroom townhouse design with an attached garage. The first buildings came on line about a year ago and all but 30 of the 84 units are completed. The remaining 30 units should be finished by November 2002. A 34-unit second phase may begin construction next year.

Oak Manor, 46 units:

This project is of standard apartment design and should be completed by the end of this year.

Pointe West II, 72 units:

This phase two addition is of standard apartment design and should be completed by the end of this year.

Westwinds Apartments, 104 units:

Located in the southwest part of the city off of 42<sup>nd</sup> Street and 40<sup>th</sup> Avenue, the first of two buildings in this walkup apartment project opened in July 2002, while the second building should be completed by November 2002. Ninety-four of its units will be restricted to households earning less than 60 percent of

area median income. The remaining 10 units will be affordable to households earning less than 30 percent of income.

West Willow Wood Greens Apartments, 60 units:

Located in southwest Fargo off of 41<sup>st</sup> street and 18<sup>th</sup> Avenue, this one and two bedroom apartment project started in August 2002. The first units should be on line by October 2002 and completed by early next year. Amenities include a double garage.

Wheatland Apartments, 24 units:

This project is of standard apartment design and should be should be completed by the end of this year.

In total, there are approximately 800 apartment units in 14 projects under construction; about 95 percent of these are market rate units while 5 percent are LIHTC units. About 60 percent of the units should be coming on line by this fall or early winter, while the remaining units by next winter or spring. This level of building exceeds the average annual absorption level of the past decade.

**Proposed Multifamily Construction Activity**

Likely starts this year include on LIHTC and three-market rate projects. Except as noted, these projects described below include heat and garage in the rent, and each unit comes with a washer and dryer:

Foxtail Creek Townhouses, 30 units

Located in southwest Fargo, this 30-unit townhouse project is income restricted to households earning less than 30 and 60 percent of median income. Construction should begin in September 2002 with the first units coming on line early next year.

Hough Apartments, 36 units:

This is a market rate project located next to the hotel and conference center in south Moorhead. The project should begin construction this year.

Parkside Apartments I, 30 to 240 units:

Located in southwest Fargo, this apartment project is expected to begin construction this fall and will be phased over a couple of years. All of its units are market rate. Amenities include elevator, underground parking and playground.

#### Trollwood Village Apartments IV, 40 units:

This is the last phase of an existing 150 unit mixed income elderly project. It is located in south Fargo and is attached to a small shopping mall. The mall includes a senior center, restaurant and several small retail shops. Project amenities include elevator, secured entry and indoor parking, and housekeeping is included in rent. The 40-unit all market rate phase should begin sometime this fall.

In total, there are approximately 140 units in the four apartment projects that are expected to start by the end of this year; except for Foxtail Creek, all are market rate projects. Construction should begin to taper off for the balance of the year as the building season comes to a close.

#### **Home Sales Market**

Fargo-Moorhead's sales market has been relatively balanced over the past several years. Average home sales price continues to increase at a relatively steady pace, while sales activity has trended upwards since the mid-1990s. Stimulated by the lowest interest rates in decades, this positive trend was given a boost in 2002. Sales activity is up 12.6 percent during the first seven months of 2002, while inventory is down significantly from one year ago. Average existing single-family sales price increased to nearly \$117,000 or a 6 percent increase during the same time period. Twin-homes account for about 6 percent of total sales and are priced approximately 10 to 15 percent below detached single-family prices. The trend in sales and average price since 1994 is presented in the following table (complete data for the MSA is not available prior to 1994):



Table 7

Existing Single Family Sales  
Fargo-Moorhead, North Dakota-Minnesota MSA  
1994 - 2002

| <u>Year</u>  | <u>Number of Sales (a)</u> | <u>Average Sales Price</u> | <u>Percent Change</u> | <u>Ending Inventory</u> |
|--------------|----------------------------|----------------------------|-----------------------|-------------------------|
| 1994         | 1,516                      | \$75,998                   | na                    | na                      |
| 1995         | 1,485                      | \$81,575                   | 7.3%                  | na                      |
| 1996         | 1,525                      | \$86,529                   | 6.1%                  | na                      |
| 1997         | 1,573                      | \$89,426                   | 3.3%                  | na                      |
| 1998         | 1,920                      | \$97,104                   | 8.6%                  | na                      |
| 1999         | 1,671                      | \$99,082                   | 2.0%                  | na                      |
| 2000         | 1,699                      | \$102,608                  | 3.6%                  | 669                     |
| 2001         | 1,885                      | \$108,379                  | 5.6%                  | 714                     |
| <hr/>        |                            |                            |                       |                         |
| July 2001(b) | 1,109                      | \$110,346                  | na                    | 957                     |
| July 2002(b) | 1,249                      | \$116,976                  | 6.0%                  | 737                     |

(a) Includes both single-family and twin-home sales.

(b) January through July.

Source: Fargo-Moorhead Board of REALTORS

Some price ranges are stronger than others. Homes priced under the NDHFA existing purchase price limit \$95,200 are in short supply, while there is more availability for homes priced up to \$130,000 because of competition from new construction, especially twin-homes. Higher priced homes of over \$200,000 also face competition from new construction. About 55 percent of recent sales have occurred in Fargo, 20 percent in Moorhead, 10 percent in West Fargo and 15 percent in the unincorporated areas and townships of Cass and Clay Counties. With a mortgage limit of \$144,336, FHA financing was used for about 30 percent of existing sales.

Townhouses and condominiums are not a large part of the overall market, but represent an affordable alternative for moderate-income households. The trend since 1994 is presented in the following table:

Table 8

Existing Townhouse/Condominium Sales  
Fargo-Moorhead, North Dakota-Minnesota MSA  
1994 - 2002

| <u>Year</u>  | <u>Number of Sales</u> | <u>Average Sales Price</u> | <u>Percent Change</u> | <u>Ending Inventory</u> |
|--------------|------------------------|----------------------------|-----------------------|-------------------------|
| 1994         | 194                    | \$56,804                   | na                    | na                      |
| 1995         | 180                    | \$62,631                   | 10.3%                 | na                      |
| 1996         | 163                    | \$59,373                   | -5.2%                 | na                      |
| 1997         | 166                    | \$61,746                   | 4.0%                  | na                      |
| 1998         | 220                    | \$67,304                   | 9.0%                  | na                      |
| 1999         | 199                    | \$74,195                   | 10.2%                 | na                      |
| 2000         | 189                    | \$68,371                   | -7.8%                 | 101                     |
| 2001         | 224                    | \$73,986                   | 8.2%                  | 132                     |
| <hr/>        |                        |                            |                       |                         |
| July 2001(a) | 127                    | \$76,393                   | na                    | 118                     |
| July 2002(a) | 130                    | \$82,178                   | 7.6%                  | 103                     |

Source: Fargo-Moorhead Board of REALTORS

The market bounced back from some weakness in 2000. Both sales activity and average sale price increased in 2001 and so far into 2002. Through July 2002, average price increased by 7.6 percent to nearly \$82,200 and at the same time sales activity was up slightly from the same period last year. Overall, the abundance and popularity of lower priced single-family detached homes and relatively low rents have limited the potential for both townhouses and condominiums in the past. This is beginning to change as recent and planned development is addressing the affordable market of under \$100,000 and the "empty nester" market of \$200,000. Townhouses and condominiums represent less than 10 percent of total sales activity in the area.

### **Rental Market Conditions**

The rental market is balanced. A steady production of new rental units continues to be absorbed by the market. The rental market is affected by the season of the year. Vacancies are the lowest in the fall and highest in the late spring and summer when fewer students are enrolled. In the spring, it is not unusual for some apartment projects to offer rent concessions. During the fall, apartments are generally full and rent concessions are not needed. Fall vacancy rates since 1990 have ranged from a low 2.9 percent to a high of 6.6 percent, while in June vacancy rates can vary between 5.7 to 8.7 percent. Rent increases for most years have been modest, while for some years rents have been flat.

The rental market eased from slightly tighter conditions in 2001 to a more balanced market in 2002. Increased construction last year combined with slower employment growth this year contributed to the overall easing. Although the vacancy rate is up slightly to 7.0 percent in June compared to 5.7 percent a year earlier, small rent increases were achieved by most projects. The trend in apartment vacancy rates from a survey begun in 1990 is shown in the following table:

*Table 9*  
Apartment Vacancy Rates  
Fargo-Moorhead, North Dakota-Minnesota MSA  
1990 - 2002

| <u>Year</u> | <u>March</u> | <u>June</u> | <u>Vacancy Rates</u> |                 | <u>Average</u> |
|-------------|--------------|-------------|----------------------|-----------------|----------------|
|             |              |             | <u>September</u>     | <u>December</u> |                |
| 1990        | 4.6%         | 7.5%        | 3.4%                 | 3.2%            | 4.6%           |
| 1991        | 5.8%         | 8.0%        | 2.9%                 | 3.2%            | 4.9%           |
| 1992        | 5.6%         | 8.7%        | 3.4%                 | 4.2%            | 5.4%           |
| 1993        | 4.7%         | 7.1%        | 3.5%                 | 4.2%            | 4.9%           |
| 1994        | 5.7%         | 8.2%        | 4.2%                 | 5.4%            | 5.5%           |
| 1995        | 5.6%         | 7.3%        | 5.2%                 | 5.8%            | 5.8%           |
| 1996        | 6.3%         | 7.3%        | 6.6%                 | 6.6%            | 5.9%           |
| 1997        | 9.4%         | 5.6%        | 3.2%                 | 4.3%            | 6.7%           |
| 1998        | 4.6%         | 7.7%        | 4.2%                 | 4.8%            | 5.6%           |
| 1999        | 5.5%         | 6.2%        | 3.2%                 | 4%              | 4.7%           |
| 2000        | 4.9%         | 5.9%        | 3.2%                 | 4.1%            | 4.5%           |
| 2001        | 4.8%         | 5.7%        | 3.4%                 | 4.5%            | 4.6%           |
| 2002        | 5.3%         | 7.0%        | na                   | na              | na             |

Source: Appraisal Services

The market is tightest in West Fargo, North Fargo and Moorhead where there has been limited recent construction and the growing student impact is more noticeable. South and southwest Fargo have the highest vacancy rates because the vast majority of new construction occurred in these areas. Both the NDSU and MSU housing offices report that students have a difficult time finding units within walking distance of campus. Many students have chosen to locate in South Fargo in lieu of the immediate area of NDSU and MSU. A greater availability of units in south and southwest Fargo and proximity to part-time work has encouraged this trend.

Rents for apartment projects vary because of the diversity in quality, age and amenity package. A typical two-bedroom rent in an older project ranges from \$400 to \$500 a month; amenities vary but typically include air conditioning, laundry hook-ups and

parking. Newer standard projects (post-1990) rent for \$600 to \$700 a month or more but usually include heat and a garage in the rent. Luxury projects are either large townhouse projects with an attached garage or an apartment style elevator building with underground heated parking, pool, exercise room and unit washer/dryer. Rents for a two-bedroom unit in these projects range from \$750 to \$950 including heat. New projects have rented up reasonably well but have used some concessions to attract tenants. The market is strongest for newer product because of the amenities and relatively reasonable rents. The standard older project is most vulnerable to seasonal swings in occupancy and faces the most impact from new construction.

The market will become much more competitive over the next year because of a flood of construction; permit activity during the first six months of this year is nearly double that of a year ago. We expect the market to continue to ease as about 60 percent of the approximately 800 units under construction come on line by the end of the year, while the balance will come on line during the first half of 2003. Another 140 units are expected to start shortly and also come on line during the first half of 2003. This level of construction is above the expected annual absorption level. Most competitive will be standard apartment product. An improved economy and continued in-migration will help the market absorb these new units, but the market will remain competitive at least through the first half of 2003.

### **Household Growth and Renter Demand Forecast**

During the 1990 through June 2002 time period, building permits were issued for about 17,100 units in the Fargo-Moorhead area. The majority of these (about 9,600 units) were multifamily; we estimate that nearly 8,700 were actually in rental projects. Owner occupied townhouses, condominiums and special purpose housing accounted for the balance of multifamily units permitted. The absorption of new rental units minus some increase in vacancies resulted in an average absorption of about 600 rental units per year since 1990. Single-family construction coupled with some renter to owner shift and a general preference for homeownership resulted in annual absorption of 670 owner units a year since 1990. We estimate that the homeownership rate rose from 58.9 in 2000 to 59.1 percent in 2002.

At present, there are about 800 rental units under construction in 14 projects (discussed earlier); 60 percent of these are expected to come on line in 2002 with the balance during the first half of 2003. The vast majority of these are in market rate projects. This level of construction is above the expected first year absorption level. There are approximately 400 units in various stages of planning. Of this total pipeline, there are 140 units in projects actually expected to begin construction in the next several months. The balance of known pipeline projects is in the early development stage (containing about 260 units). As mentioned earlier, local builders often have zoning and financing in place, which allows building to begin on short notice and the pipeline to increase rapidly.

We forecast employment gains of between 1.5 and 2 percent for the over the next two years. This will generate average household growth of about 950 households per year. After adjusting for units under construction and a small mobile home impact, this level of growth should support production of under 100 rental units in 2003 and 400 to 500 in 2003. This is below the average annual production level since 1990 of about 700 rental units a year. Production of new units should be cutback to bring the market in balance. Construction of additional units should not start until the majority of these units have been absorbed, which we expect to occur by mid-2003. Should home prices or interest rates increase dramatically, the demand for rental units would see a corresponding increase, but our present forecast does not anticipate a major change in these factors.

About 20 percent of the 140 units in late planning, but not yet under construction, are LIHTC units. The presence of below market rents normally would boost rental absorption in the short run above the level one would expect if all were market rate, general occupancy projects. Since this is such a small number, it will have little effect on overall absorption. The large number of market rate units, either under construction or in the immediate pipeline, leaves little opportunity for this type of product over the next year. Any starts for market rate product should begin next spring with units coming on line during the second half of 2003. Niche product with a unique design (e.g. townhouse, loft, etc.) in a good sub-market would be better received than the standard product that has been the staple of past construction. This level and timing of construction will keep the rental market in balance over the next two years. There is demand for 40 percent LIHTC or one and four bedroom 50 and 60 percent product that would be well received at any time during the next two years. There is also need for elderly LIHTC units at all income levels.

### **Household Growth and Owner Demand Forecast**

We estimate the demand for owner occupied units at about 600 units a year over the next few years. Most of these units should be single-family detached and twin-homes, although we expect that some of the demand will be met by townhouses and condominiums. The proportion of townhouses and condominiums should begin to increase over the next few years. This demand forecast is only slightly below the average annual absorption of owner units since 1990 and the average production of new units of about 700 units a year.

### **Subsidized Housing**

There are about 2,100 units in HUD subsidized projects in the Fargo-Moorhead area. Nearly all of these are under public housing or Section 8 housing assistance payments contracts. This subsidy typically allows tenants to pay 30 percent of their income for rent. Participation in the public housing and Section 8 programs is generally limited to households with incomes less than 50 percent of the median income for the Fargo-Moorhead area. At present, this income limit is \$27,950 for a family of four and \$19,550 for an individual. About two thirds of the total HUD-subsidized inventory are in projects for the elderly. These projects are generally full and maintain small waiting

lists. Occupancy has been bolstered by a significant number of handicapped and disabled persons that have located in the Fargo-Moorhead area. Some elderly projects report that as many as 85 percent of their occupants are handicapped or disabled and under the age of 62. With few exceptions, family projects are also full and maintain waiting lists but are more likely to have vacancies at any given time due to the considerably higher turnover in these units. Conversely, elderly projects outside the Fargo-Moorhead commuting area have difficulty maintaining full occupancy. Many of these smaller, more remote communities have experienced a loss of population and employment to the urban areas in the state, including the Fargo-Moorhead urbanized area.

There are about 2,000 Section 8 Vouchers in the Fargo-Moorhead area. The Fargo Housing Authority (HA) manages about half of these units. HAs in Cass and Clay counties, and Moorhead account for the balance of these units. Section 8 Vouchers are issued to eligible tenants who find their own units in the market and contribute 30 percent of their income for rent. Eligibility for vouchers is also limited to households with incomes less than 50 percent of the median but three-fourths of vouchers are targeted to households with incomes less than 30 percent of the median (\$16,770 for a family of four, \$11,730 for an individual). Utilization of vouchers is high and local HAs combined waiting lists number nearly 1,400 households, including about 400 elderly. The majority of these households are seeking the use of Section 8 vouchers because the subsidy is not tied to a specific project. We estimate there are about 4,700 renter households in the Fargo-Moorhead MSA with incomes less than 50 percent of the median and paying more than 30 percent of income for rent. There remains a large unmet need for rental assistance in the Fargo-Moorhead MSA.

### **Low Income Housing Tax Credit (LIHTC)**

The tax credit market has taken a few years to recover from the overbuilding of the 1993 to 1996 period. It is now more balanced after an extended adjustment period, but at rents far below the maximum allowable under the program. The slow recovery was the result of too many new units targeting the same income group and coming on line within a relatively short period of time. There have been few units produced during the past five years. This cutback, along with an improved general market, has helped the LIHTC market recover. Amenities for these projects compete very well with the general market, and rents are about \$100 below comparable market rate projects. Project owners have kept their rents well below the maximums permitted by the program. Rents, even at the 60 percent of income level, are below the present Section 8 Fair Market Rents and below the 50 percent maximum rent. The two and three bedroom 50 and 60 percent market is competitive because of the concentration of units at those income levels.

The existing inventory of 1,160 LIHTC units (including 114 elderly) entered the market beginning in the late 1980s. In the immediate pipeline are nearly 120 LIHTC units in three projects, one located in Moorhead and two in Fargo. These are predominantly 60 percent two and three bedroom units. All of the projects have been

described earlier; two are under construction, while the remaining one is expected to start this fall.

### **Market Potential for Nonelderly LIHTC Units**

The market potential for LIHTC units consists of households that are both income qualified and can afford the proposed rents. Table 6 illustrates the maximum incomes by bedroom size (assuming 1.5 persons per bedroom), maximum shelter rents (30 percent of the maximum income limit less a utility allowance) and estimated minimum incomes (assuming a typical requirement that tenant income be at least 2.5 times monthly shelter rent) at the 40, 50 and 60 percent of income level. As mentioned earlier, actual tax credit rents are considerably below the maximum allowable under the program. Therefore, we have also shown the minimum incomes needed to afford these lower rent levels; households within these income ranges form the target market for any given project and/or units at that income level. For example, the target income level for a 60 percent two-bedroom unit would be for households with incomes ranging from \$16,500 to \$30,180. These computations are based on Fiscal Year 2002 income limits for the MSA that were effective January 31, 2002. The Fargo HA has estimated utility allowances used below. The following table shows income levels, maximum shelter rents and actual rents under the LIHTC program:

*Table 10*

#### **Target Resident Incomes and Rents by Bedroom Size** **Fargo-Moorhead, North Dakota-Minnesota MSA** **Fiscal Year 2002**

| <b>40 Percent of Median Income:</b> | <b><u>Number of Bedrooms</u></b> |                   |                     |                    |
|-------------------------------------|----------------------------------|-------------------|---------------------|--------------------|
|                                     | <b><u>One</u></b>                | <b><u>Two</u></b> | <b><u>Three</u></b> | <b><u>Four</u></b> |
| Maximum annual income               | \$16,760                         | \$20,120          | \$23,260            | \$25,920           |
| Maximum monthly shelter rent        | \$386                            | \$468             | \$537               | \$595              |
| Minimum annual income               | \$11,580                         | \$14,040          | \$16,110            | \$17,850           |
| Estimated actual shelter rent       | \$350                            | \$425             | \$500               | \$575              |
| Minimum annual income               | \$10,500                         | \$12,750          | \$15,000            | \$17,250           |
| <b>50 Percent of Median Income:</b> | <b><u>Number of Bedrooms</u></b> |                   |                     |                    |
|                                     | <b><u>One</u></b>                | <b><u>Two</u></b> | <b><u>Three</u></b> | <b><u>Four</u></b> |
| Maximum annual income               | \$20,950                         | \$25,150          | \$29,075            | \$32,400           |
| Maximum monthly shelter rent        | \$491                            | \$594             | \$682               | \$757              |
| Minimum annual income               | \$14,730                         | \$17,820          | \$20,460            | \$22,710           |
| Estimated actual shelter rent       | \$400                            | \$500             | \$600               | \$700              |
| Minimum annual income               | \$12,000                         | \$15,000          | \$18,000            | \$21,000           |

Table 10 (continued)

| 60 Percent of Median Income:  | <u>Number of Bedrooms</u> |            |              |             |
|-------------------------------|---------------------------|------------|--------------|-------------|
|                               | <u>One</u>                | <u>Two</u> | <u>Three</u> | <u>Four</u> |
| Maximum annual income         | \$25,140                  | \$30,180   | \$34,890     | \$38,880    |
| Maximum monthly shelter rent  | \$596                     | \$720      | \$827        | \$919       |
| Minimum annual income         | \$17,880                  | \$21,600   | \$24,810     | \$27,570    |
| Estimated actual shelter rent | \$450                     | \$550      | \$650        | \$750       |
| Minimum annual income         | \$13,500                  | \$16,500   | \$19,500     | \$22,500    |

To estimate the potential market in each range, we updated 1990 Census data that presented incomes by household size and tenure for all households. We assumed a faster growth in these target renter households than in total renters since some shift to homeownership has lowered the proportion of higher income renters. Consequently, the proportion of lower income renters has increased more than the total. Households were allocated to bedroom sizes based on occupancy patterns derived from the American Housing Survey. By comparing the above income ranges to the updated income distribution, we computed the number of renter households in each range. We then compared this to the number of units for this target group to obtain capture rates. Because Section 8 vouchers account for approximately 30 percent of current residents, we have also adjusted the number of existing units by this factor.

The results of this analysis are presented below in table 11. Note that we have derived two sets of capture rates for each income level. The first is based only on completed units in the present inventory. The second is derived from the total of completed, under construction and proposed units. This later computation tells us the capture rates the LIHTC market will have to achieve to successfully absorb all units presently under construction and proposed. Both sets of capture rates have been adjusted to reflect tenants expected from outside the market area, estimated to be approximately 20 percent.



Table 11

Nonelderly Market Potential and Capture Rates  
Fargo-Moorhead, North Dakota-Minnesota MSA  
July 2002

|                                    | <u>Number by Bedroom Size</u> |              |              |             |              |
|------------------------------------|-------------------------------|--------------|--------------|-------------|--------------|
| <b>40 Percent of Income:</b>       | <u>One</u>                    | <u>Two</u>   | <u>Three</u> | <u>Four</u> | <u>Total</u> |
| Total Renter Households            | 11,160                        | 8,780        | 3,370        | 940         | 24,250       |
| Targeted Renter Households         | 1,630                         | 1,400        | 550          | 110         | 3,690        |
| Completed units                    | 1                             | 3            | 3            | 0           | 0            |
| <b>Adjusted Capture rates:</b>     | <b>0.0%</b>                   | <b>0.2%</b>  | <b>0.2%</b>  | <b>na</b>   | <b>0.2%</b>  |
| Complete, under constr., proposed  | 12                            | 4            | 4            | 0           | 0            |
| <b>Adjusted Capture rates:</b>     | <b>0.6%</b>                   | <b>0.2%</b>  | <b>0.6%</b>  | <b>na</b>   | <b>0.4%</b>  |
|                                    | <u>Number by Bedroom Size</u> |              |              |             |              |
| <b>50 Percent of Income:</b>       | <u>One</u>                    | <u>Two</u>   | <u>Three</u> | <u>Four</u> | <u>Total</u> |
| Total Renter Households            | 11,160                        | 8,780        | 3,370        | 940         | 24,250       |
| Targeted Renter Households         | 2,310                         | 1,880        | 700          | 180         | 5,070        |
| Adjusted completed units           | 4                             | 53           | 32           | 0           | 89           |
| <b>Adjusted Capture rates:</b>     | <b>0.1%</b>                   | <b>2.3%</b>  | <b>3.7%</b>  | <b>na</b>   | <b>1.5%</b>  |
| Completed, under constr., proposed | 4                             | 53           | 32           | 0           | 89           |
| <b>Adjusted Capture rates:</b>     | <b>0.1%</b>                   | <b>2.3%</b>  | <b>3.7%</b>  | <b>na</b>   | <b>1.5%</b>  |
|                                    | <u>Number by Bedroom Size</u> |              |              |             |              |
| <b>60 Percent of Income:</b>       | <u>One</u>                    | <u>Two</u>   | <u>Three</u> | <u>Four</u> | <u>Total</u> |
| Total Renter Households            | 11,160                        | 8,780        | 3,370        | 940         | 24,250       |
| Targeted Renter Households         | 2,980                         | 2,250        | 930          | 250         | 6,410        |
| Adjusted completed units           | 43                            | 398          | 216          | 4           | 661          |
| <b>Adjusted Capture rates:</b>     | <b>1.2%</b>                   | <b>14.2%</b> | <b>18.6%</b> | <b>1.3%</b> | <b>8.2%</b>  |
| Completed, under constr., proposed | 46                            | 468          | 253          | 9           | 776          |
| <b>Adjusted Capture rates:</b>     | <b>1.2%</b>                   | <b>16.6%</b> | <b>21.8%</b> | <b>2.9%</b> | <b>9.7%</b>  |

Note: Capture rates adjusted 20 percent for out of area tenants and by a 30 percent factor for Section 8 voucher tenants.

Source: Estimated by HUD Economist

The total capture rates achieved for completed units are modest for the 40 and 50 percent target group, ranging from 0.0 to 3.7 percent. However, these rates are misleading since there is considerable overlap with the 60 percent market (see discussion in paragraph below). There are only a few existing 40 percent or lower units in the market area. For the 60 percent target group, the overall capture rate of 9.7 percent, although still reasonable, is considerably higher than that for the 50 percent group. With the exception of the 60 percent two and three-bedroom rate, these rates are consistent with the generally balanced state of the present LIHTC market. Because the pipeline is modest, the two and three bedroom 60 percent capture rates increase only slightly. Capture rates increase from 14 to 16 percent for the two bedroom and 19 to 22 percent for the three bedroom units. There are only 13 units under construction or proposed at the 40 percent level and 5 four-bedroom units at the 60 percent level. There are 3 one-bedroom units proposed at the 50 and 60 percent income level.

There can be considerable overlap between various income levels. For example, a family needing a two-bedroom unit with an income of \$21,500 can afford the minimum rent in a 60 percent unit but is below the maximum income limit for a 50 percent unit (refer to the income levels in Table 10). Since there is such a large overlap, we have produced estimated 50 and 60 percent capture rates for these units in the aggregate. These results are presented in Table 12.

*Table 12*

Nonelderly Market Potential and Capture Rates  
Fargo-Moorhead, North Dakota-Minnesota MSA  
July 2002

| <b>50 &amp; 60 Percent of Income:</b> | <u>Number by Bedroom Size</u> |              |              |             |              |
|---------------------------------------|-------------------------------|--------------|--------------|-------------|--------------|
|                                       | <u>One</u>                    | <u>Two</u>   | <u>Three</u> | <u>Four</u> | <u>Total</u> |
| Total Renter Households               | 11,160                        | 8,780        | 3,370        | 940         | 24,250       |
| Targeted Renter Households            | 3,370                         | 2,540        | 1,030        | 270         | 7,210        |
| Adjusted completed units              | 38                            | 451          | 248          | 4           | 750          |
| <b>Adjusted Capture rates:</b>        | <b>1.1%</b>                   | <b>14.2%</b> | <b>19.3%</b> | <b>1.2%</b> | <b>8.3%</b>  |
| Completed, under constr., proposed    | 50                            | 521          | 285          | 9           | 870          |
| <b>Adjusted Capture rates:</b>        | <b>1.2%</b>                   | <b>16.4%</b> | <b>22.1%</b> | <b>2.7</b>  | <b>9.6%</b>  |

Note: Capture rates adjusted 20 percent for out of area tenants. Completed units adjusted by 30 percent for Section 8 voucher tenants voucher tenants.

Source: Estimated by HUD Economist

These estimates show that the capture rates are virtually identical (from Table 11) to the 60 percent two and three bedroom units when including all 50 percent renter households and the 50 percent units. This indicates that the actual 60 percent rents are low enough to target most of the 50 percent households, while, at the same time, there are very few completed or proposed 50 percent units. Despite similar 50/60 percent capture rates, the two and three bedroom units are still close to rates seen in other market areas.

Establishing attainable capture rates is imprecise but in view of past experience, relatively low market rate rents for standard apartments and growth in the Fargo-Moorhead area, we anticipate that the market appears to be balanced at about 20 percent for the two and three bedroom units. If a construction surge occurs and pushes rates higher than we would expect a longer than normal adjustment period could take place as it did following the construction surge of the mid-1990s. In this case, rents for some projects may need to be lowered to attain the higher capture rates, especially the three-bedroom units. The underserved 40 percent or lower market is well below this level as are one and four bedroom for all income levels. The use of Section 8 vouchers in tax credit projects is unlikely to increase dramatically because of the relatively constant number of vouchers in the market area. Over the long term, as the LIHTC and market rents begin to diverge, capture rates could go higher. In the short term, development should be directed towards the 40 percent market for all unit types, and at the 50 and 60 percent one and four bedroom markets.

In summary, there is considerable potential for developing additional LIHTC units at the 40 percent level for all unit types, and the 50 and 60 percent level for the one and four bedroom markets. Of course, there is demand from families who cannot afford the minimum rents at typical levels of LIHTC units without additional subsidy such as Section 8. The vast majority of Section 8 voucher recipients in the area have incomes less than \$12,000, an income group unable to afford the 50 or 60 percent LIHTC units. With few tax credit units in the immediate pipeline, the market should remain stable. We encourage more production emphasis on all 40 percent or lower unit types and 50 and 60 percent one and four bedrooms, while the two and three bedroom 50 and 60 percent production could wait until the market strengthens.

### **Market Potential for Elderly LIHTC Units**

There are numerous subsidized elderly housing projects for very low-income households (50 percent of median income) in the MSA that were developed under the Low Rent Public Housing program or the Section 8 program. While there is some overlap with the LIHTC market, it is very small because tenant incomes in these projects are usually too low to afford the tax credit rent. Very low-income elderly households can use vouchers in LIHTC projects.

There has been a modest level of development of elderly LIHTC projects in Fargo-Moorhead. Six projects containing 114 units were built beginning in the late 1980s. About 90 of these units were developed at the 60 percent of income level, while the

balance is made up of 40 and 50 percent units. Bedroom size is made up of 30 and 70 percent of one and two-bedroom units, respectively. The elderly tax credit market is strong; projects are full and most maintain waiting lists. The newest project, the Century Square Townhouses, leased up in a few months. Even with strong demand, projects can take longer to lease-up because elderly households often take longer to change living arrangements. There are no known LIHTC elderly projects either under construction or in the immediate planning pipeline. Existing projects are presented in Table 13.

*Table 13*

Income Targets, Bedroom Distribution and Status of Elderly LIHTC Projects  
Fargo-Moorhead, North Dakota-Minnesota MSA  
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**Completed:**

|                 | <u>One bedroom</u> |           |           | <u>Two bedrooms</u> |           |           | <u>Total</u> |
|-----------------|--------------------|-----------|-----------|---------------------|-----------|-----------|--------------|
|                 | <u>40</u>          | <u>50</u> | <u>60</u> | <u>40</u>           | <u>50</u> | <u>60</u> |              |
| Century Square  |                    |           |           | 1                   |           | 18        | 19           |
| Commons at 45th |                    |           |           | 2                   |           | 18        | 20           |
| River Square    | 1                  |           | 8         | 1                   |           | 19        | 29           |
| Trollwood I.    |                    |           | 7         |                     |           | 3         | 10           |
| Trollwood II    |                    | 15        |           |                     | 5         |           | 20           |
| Sheyenne Square |                    |           |           | 1                   |           | 15        | 16           |
| <b>Total</b>    | <b>1</b>           | <b>15</b> | <b>15</b> | <b>5</b>            | <b>5</b>  | <b>73</b> | <b>114</b>   |

The potential market for these units is estimated using a methodology similar to that discussed in the previous section dealing with the nonelderly LIHTC market. The minimum incomes are approximately equal to those in the previous section (see Table 10) but the maximum limits are the one and two person income limits for the appropriate level. The total potential below includes both one and two person households. Our experience indicates that about 80 percent of elderly LIHTC one-person households occupy units. The capture rate shown has been adjusted to reflect this. For example, the 88 units that exist at the 60 percent level will have to rent to about 70 one-person households to be absorbed (.80 times 88). Also, based on past experience, approximately 10 percent will be occupied by out of area tenants, resulting in a need to capture approximately 60 single persons in the local market. The inclusion of a portion (approximately 10 percent) of homeowners also lowers the number of single persons to about 50 persons. The homeowner factor is more relevant for the 60 percent units because persons in this income group are more likely to own a home than those at the 40 and 50 percent levels. The adjusted capture rate of 9 percent represents the proportion of eligible single person households represented by these 60 persons. In this case, we have not adjusted for voucher holders since the capture rates are very

modest. The results for the 40, 50 and 60 percent of income group are shown in Table 14.

*Table 14*

Elderly Market Potential and Single Person Renter Capture Rates  
Fargo-Moorhead, North Dakota-Minnesota MSA  
July 2002

|                                    |                  |
|------------------------------------|------------------|
| <b>40 Percent of Income:</b>       | <u>Total (a)</u> |
| Total Elderly Renter Households    | 5,015            |
| Targeted Elderly Renter Households | 902              |
| Completed                          | 6                |
| Adjusted capture rate:             | <b>1%</b>        |
| <br><b>50 Percent of Income:</b>   | <br><u>Total</u> |
| Total Elderly Renter Households    | 5,015            |
| Targeted Elderly Renter Households | 748              |
| Completed                          | 20               |
| <b>Adjusted capture rate:</b>      | <b>2%</b>        |
| <br><b>60 Percent of Income:</b>   | <br><u>Total</u> |
| Total Elderly Renter Households    | 5,015            |
| Targeted Elderly Renter Households | 790              |
| Completed                          | 88               |
| <b>Adjusted capture rate:</b>      | <b>9%</b>        |

(a) There are no elderly projects under construction or in the immediate planning pipeline.

The total capture rates achieved for the completed units are low for the 40, 50 and 60 percent units. These rates are consistent with the relatively strong state of the present elderly LIHTC market. We have not adjusted for the possibility that some of these targeted households are already being served in subsidized units but a majority of the Section 8 subsidized elderly residents in the MSA have incomes under \$10,000, below all minimum incomes. This would only marginally impact the 40 and 50 percent LIHTC capture rates. Also, adjusting for the use of Section 8 vouchers in existing projects would also lower capture rates. As mentioned above, there are no LIHTC elderly projects in the pipeline. In view of the modest capture rates in this segment of the market, there is some potential to develop elderly LIHTC units at all income levels.